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No. 97-230

IN THE
Supreme Court of the United States
OCTOBER TERM, 1997

GENERAL ELECTRIC COMPANY AND
DRUCKER & GENUTH, MDS, P.C., D/B/A
SOUTH SHORE IMAGING ASSOCIATES,
Petitioners,

v.

FONAR CORPORATION AND
DR. RAYMOND V. DAMADIAN,
Respondents.

On Petition For A Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

MOTION FOR LEAVE TO FILE BRIEF *AMICUS CURIAE* AND BRIEF *AMICUS CURIAE* OF INTELLECTUAL PROPERTY OWNERS IN SUPPORT OF CERTIORARI

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MOTION OF INTELLECTUAL PROPERTY OWNERS FOR LEAVE TO FILE BRIEF *AMICUS CURIAE* IN SUPPORT OF CERTIORARI

Pursuant to this Court's Rule 37.2, Intellectual Property Owners (IPO) respectfully moves for leave to file the attached brief *amicus curiae* in this case. The consent of the attorney for petitioners has been obtained. The consent of the attorney for respondents was requested but refused.

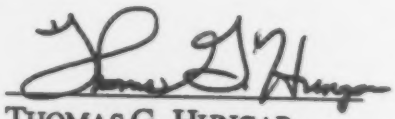
Amicus IPO is a national organization that represents the owners of intellectual property in the United States. IPO's members include businesses and individuals who own or are interested in intellectual property rights. IPO regularly represents the interests of its members before

Congress, the Patent and Trademark Office, the Copyright Office, and the federal courts.

IPO and its members have a substantial interest in the question of patent damages presented by the petition in this case. Intellectual property owners often must resort to litigation to protect, or defend, their rights. While IPO members may be both plaintiffs and defendants in such actions, the proper measure of damages is a crucial issue to all litigants and potential litigants.

Because IPO's members are active participants in all aspects of the market for intellectual property rights, IPO has a unique perspective on the importance of uniformity in intellectual property law, including the law relating to the calculation of damages for patent infringement. In filing this brief, IPO seeks to bring to the Court's attention matters that have not been fully addressed by the parties regarding the need for uniformity and the current lack of consistency in the lower courts' interpretations of the entire market value rule.

Respectfully submitted.



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September 8, 1997

QUESTION PRESENTED

This Court has held that the "entire market value rule" of patent damages allows a patentee to recover damages based on the entire value of a machine or device if the value of the whole machine is "properly attributable" to the particular feature or component that is the subject of the infringed patent. The Federal Circuit, which has exclusive appellate jurisdiction in patent cases, has articulated inconsistent standards for determining when the entire market value rule is applicable, and that court was unable to resolve the confusion in a recent *in banc* decision that produced no majority opinion on this issue. The question addressed by *amicus curiae* is whether this Court should grant review of the decision below, which exemplifies the lack of a clear standard for the application of the entire market value rule, in order to resolve the present confusion and provide uniformity and consistency in this important area of patent damages law.

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BRIEF *AMICUS CURIAE* OF INTELLECTUAL PROPERTY OWNERS IN SUPPORT OF CERTIORARI

Intellectual Property Owners respectfully submits this *amicus curiae* brief in support of certiorari on the question of the proper interpretation and application of the entire market value rule.[1] Although IPO has not taken a position on the merits of that question, IPO believes that

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[1] Pursuant to this Court's Rule 37.6, *amicus* represents that this brief was not authored in whole or in part by counsel for any party. Petitioner, an IPO member, did not vote on whether to file this brief and made no monetary contribution to the preparation or submission of this brief. No other person or entity made such a contribution other than IPO, its members, or its counsel.

the issue is one of national importance that should be resolved by this Court.

INTEREST OF *AMICUS CURIAE*

Amicus IPO is a national organization, founded in 1972, that represents the owners of intellectual property in the United States. IPO's members include nearly 100 large and mid-size companies and more than 300 small businesses, universities, inventors, authors, executives, and attorneys who own or are interested in patents, trademarks, copyrights, and other intellectual property rights. Members of IPO's Board of Directors, which pursuant to IPO's procedures approved the position taken in this *amicus* brief by a three-fourths vote of members present and voting, are listed in the Appendix to this brief.

IPO regularly represents the interests of its members before Congress, the Patent and Trademark Office, the Copyright Office, and the federal courts. IPO filed *amicus* briefs in the patent cases decided by this Court in each of the last two Terms. *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 117 S. Ct. 1040 (1997); *Markman v. Westview Investments, Inc.*, 116 S. Ct. 1384 (1996).

IPO and its members have a substantial interest in the question of patent damages presented by the petition in this case. Intellectual property owners often must resort to litigation to protect, or defend, their rights. While IPO members may be both plaintiffs and defendants in such actions, the proper measure of damages is a crucial issue to all litigants and potential litigants.

STATEMENT

This case involves the interpretation of the "entire market value rule" of patent damages, which applies

when a patentee seeks damages for infringement of a patent covering only part of a machine or device. For example, the patent at issue in this case covered the multi-angle oblique imaging (MAO) feature of magnetic resonance imaging (MRI) machines. Pet. App. 2a. The MAO feature was the subject of only one of more than 100 patents applicable to MRI systems made by petitioner General Electric Company. Pet. 15.

The court of appeals held that respondents' damages were properly calculated based on the entire value of petitioner's MRI machines that employed the patented MAO feature. Pet. App. 15a. The court reasoned that the entire market value rule "allows for the recovery of damages based on the value of an entire apparatus containing several features, even though only one feature is patented." *Id.* (internal quotation omitted). Relying on several of petitioner's marketing brochures, the court concluded that the MAO feature was "the basis for consumer demand for the entire machine" and, therefore, that the entire market value rule applied. *Id.*

DISCUSSION

When a patentee proves that a valid patent has been infringed, the patentee is statutorily entitled to compensatory damages:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

35 U.S.C. § 284. The statute aims to "ensure that the patent owner would in fact receive full compensation for 'any damages' [the patentee] suffered as a result of the

infringement." *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654 (1983).

In a series of cases beginning in the mid-nineteenth century, this Court announced and delineated the scope of the entire market value rule for the calculation of patent damages. Under that rule as originally expounded by this Court, a patentee is entitled to compensation only for the value that the infringed patent added to the device in question, unless the value of the entire machine can be attributed to the infringed patent:

> [T]here are many cases in which the plaintiff's patent is only a part of the machine and creates only a part of the profits. . . . In such case, if plaintiff's patent only created a part of the profit, he is only entitled to receive that part of the net gains. He must, therefore, give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectual or speculative; *or he must show*, by equally reliable and satisfactory evidence, that the profits and damages are to be calculated on the whole machine, for the reason *that the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature*.

Westinghouse Electric & Mfg. Co. v. Wagner Electric & Mfg. Co., 225 U.S. 604, 614-15 (1912) (emphasis added); *see also, e.g., Garretson v. Clark*, 111 U.S. 120, 121 (1884).

The difficulty in applying the entire market value rule lies in determining *when* the entire value of a machine or device can (or should) be attributed to a single patented feature. On this question, the Federal Circuit -- the ap-

pellate court with exclusive jurisdiction over patent cases -- has in recent years produced a series of inconsistent decisions, engendering confusion in the district courts and fostering uncertainty and unpredictability in business dealings affected by patent rights. Review by this Court is warranted to settle this important question of patent damages.

I. The Federal Circuit's Jurisprudence On The Entire Market Value Rule Is Confusing And Inconsistent And Does Not Provide Clear Guidance To Patentees, Alleged Infringers, Or The District Courts

Since its establishment in 1982, the Federal Circuit has broadened the applicability of the entire market value rule beyond its roots in this Court's precedents. *See generally* Pet. 10-15. More than a century ago, this Court observed that cases falling within the rule were "exceptional." *Dobson v. Hartford Carpet Co.*, 114 U.S. 439, 445 (1885). By contrast, the district court in this case was of the view that, under controlling Federal Circuit precedent, "[w]here the patented and unpatented components of the device are physically part of the same machine, the patentee can *typically* recover compensation based on the value of the entire apparatus." Pet. App. 65a (emphasis added).

As the applicability of the entire market value rule has expanded, its impact on real-world business dealings has grown proportionally. The rule substantially increases the infringement damages potentially recoverable by patentees, thereby enhancing the value of patents and the bargaining position of patentees while correspondingly heightening the risks faced by businesses threatened with a patent infringement suit or seeking to negotiate a patent license. At the same time, the growing confusion and lack of clear guidance from the Fed-

eral Circuit regarding the proper application of the rule has made it virtually impossible for patentees, alleged infringers, and federal district courts to discern with any degree of certainty the actual scope of the rule.

A. The Federal Circuit Has Offered Differing Interpretations Of The Entire Market Value Rule

The Federal Circuit, which is internally divided over the interpretation of the entire market value rule, has found itself unable to articulate a clear principle regarding the circumstances in which that rule is appropriately applied. Indeed, since its inception the Federal Circuit has developed two distinct lines of precedent regarding the application of the entire market value rule. This dichotomy has fostered tremendous legal uncertainty, and recent efforts to resolve that uncertainty have, if anything, merely heightened the problem.

One line of Federal Circuit cases appears to hold that the entire market value rule applies if the patented feature is the sole basis for consumer demand for the machine, as evidenced by proof that the non-patented features could not be sold and used separately. For example, the Federal Circuit held in *Kori Corp. v. Wilco Marsh Buggies and Draglines, Inc.*, 761 F.2d 649 (Fed. Cir. 1985), that damages for infringement of a patent on a pontoon structure used in an amphibious marsh craft should be based on the entire value of the marsh craft, because there was "no evidence that the unpatented heavy uppers [of the craft] have been or could be used independently of the patented pontoon structure. . . . Accordingly, the district court properly awarded damages based on the entire market value of the infringing machines." *Id.* at 656; *see also State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1580 (Fed. Cir. 1989) (affirming award of damages based on patented

feature as well as non-patented components because the patented feature "was the basis for consumer demand" in that "no components can be used separately").

Another line of decisions, by contrast, construes the entire market value rule more broadly, focusing instead on the infringer's or patentee's expectations regarding the sale of non-patented items. For example, the Federal Circuit has held that the patentee of a device used in toilet paper manufacturing can recover damages based on sales of separate, unpatented machines that were also involved in the process because the patentee expected that they would be sold together with the patented device. The court said that the "deciding factor" was whether "'the patentee (or its licensee) can anticipate sale of such unpatented components as well as of the patented' ones." *Paper Converting Machine Co. v. Magna-Graphics Corp.*, 745 F.2d 11, 23 (Fed. Cir. 1984).

Other Federal Circuit cases are to the same effect. *See, e.g., King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 865 (Fed. Cir. 1985) ("The controlling touchstone . . . is whether the patentee can normally anticipate the sale of the non-patented component together with the sale of the patented components"); *see also Leesona Corp. v. United States*, 599 F.2d 958, 974-75 (Ct. Cl.) (accepting proposition that entire market value rule permits damages based on lost profits on unpatented items "even though some of [of the unpatented items] could be and were sold separately from the infringed . . . assembly"), *cert. denied*, 444 U.S. 991 (1979). Under this formulation of the rule, a patentee is entitled to recover damages calculated on the basis of the total value of the patented and unpatented components as long as the patented portion is typically sold

with the unpatented parts, even if "they each have separate usage." *Paper Converting*, 745 F.2d at 23.

These two approaches to the entire market value rule produce different results on the same set of facts. The first articulation essentially requires a showing that the unpatented components were effectively useless or valueless without the patented feature and could not have been sold without it. The second articulation, by contrast, requires only a showing that the patentee could reasonably have expected to sell the unpatented components together with the patented feature, without regard to whether the unpatented components could also have been sold separately. Where the patented feature is a reason for the sale of the entire machine but the machine could also be expected to be sold without the feature, the entire market value rule would not be applied under the first formulation but would be applied under the second.

B. The *In Banc* Federal Circuit Was Unable To Clarify The Entire Market Value Rule In *Rite-Hite*

The *in banc* Federal Circuit recently attempted, but failed, to harmonize its inconsistent decisions applying the entire market value rule. *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538 (Fed. Cir.) (*in banc*), *cert. denied*, 116 S. Ct. 184 (1995). In *Rite-Hite*, the court considered whether sales of unpatented dock levelers could be included in the damages calculation for the infringement of patented devices that secured trucks to loading docks during unloading. With respect to the entire market value rule, no view garnered a majority of the court. Instead, three different interpretations of the entire market value rule emerged.

A six-judge plurality of the Federal Circuit interpreted the entire market value rule "to the effect that the unpatented components must function together with the patented component in some manner so as to produce a desired end product or result." 56 F.3d at 1550 (opinion of Lourie, J.). In other words, the components "must constitute a functional unit." *Id.*

Four other judges articulated a different interpretation of the entire market value rule than that urged by the plurality. They argued that the entire market value rule means that "the entirety of a patentee's lost profits may be recovered as 'damages' only where the patentee proves that the use of the invention in suit in the patentee's and infringer's goods creates consumer demand for the entire product." 56 F.3d at 1567 (Nies, J., dissenting in part). These judges disagreed with the plurality's articulation of the rule because "[t]he entire market value rule is based on a realistic evaluation of the commercial magnetism of the patented invention, not on whether components in a machine . . . function together." *Id.* at 1575-76.

The remaining two judges on the *in banc* court concluded that the plurality's interpretation of the entire market value rule was too narrow, arguing that "[t]he correct rule" is that "it is not the physical joinder or separation of the contested items that determines their inclusion in or exclusion from the compensation base, so much as their financial and marketing dependence on the patented item under standard marketing procedures for the goods in question." *Id.* at 1582 (Newman, J., concurring in part and dissenting in part). These judges would apply the entire market value rule if the infringer foresaw that the infringement could affect the sale of non-patented goods. *Id.*

C. Decisions Since *Rite-Hite* Continue To Apply The Entire Market Value Rule Inconsistently

It is readily apparent that the *Rite-Hite* decision, which produced no single opinion for a majority of the Federal Circuit on the interpretation of the entire market value rule, has done nothing to eliminate the confusion surrounding the proper application of that rule. Cases decided since *Rite-Hite* confirm the continued lack of coherency and consistency in this area of the law.

At least one district court has chosen to follow the *Rite-Hite* plurality's articulation of the entire market value rule, which requires that patented and non-patented components function together as a unit. In *Tec Air, Inc. v. Nippondenso Manufacturing U.S.A., Inc.*, No. 91 C 4488, 1996 WL 556739 (N.D. Ill. Sept. 27, 1996), the court held that the entire market value rule applies to unpatented radiators and condensors because "there is ample evidence that the radiators and condensors required a balanced fan in order to run and those [patented] fans were almost always included in the final product." *Id.* at *8.

In *Heidelberger Druckmaschinen AG v. Hantscho Commercial Products, Inc.*, No. 87 Civ. 4522 (LMM), 1995 WL 693170 (S.D.N.Y. Nov. 22, 1995), by contrast, the court appears to have rejected the *Rite-Hite* plurality's approach in favor of Judge Nies' requirement that the patented feature must be the basis for consumer demand for the entire machine. The court held that, although the patented and unpatented components functioned together and were typically sold as one unit, damages could not be calculated as if the entire value of the device were attributable to the patented component because "the Court is not convinced that the patented

chopper is the sole basis for the purchase." *Id.* at *2, *4.

Finally, at least one post-*Rite-Hite* decision has apparently endorsed the "foreseeability" rule championed by Judge Newman in her dissent. *Fototec Int'l Corp. v. Polaroid Corp.*, No. 1:94-CV-821-FMH, 1996 WL 263651, at *5 (N.D. Ga. Feb. 21, 1996). The *Fototec* court concluded that "[n]on-patented products can be included in the royalty base . . . . when the patent holder reasonably can expect or anticipate the sale of the non-patented product together with the sale of the patented product." *Id.* at *5.

The confusion engendered by *Rite-Hite*, and by the entire market value rule generally, is perhaps best exemplified by the decision below. A straightforward application of the *Rite-Hite* plurality's approach would have led to the application of the entire market value rule in this case, because the features and parts of a single machine always function together as a unit. That reasoning was followed by the district court below (Pet. App. 65a), but the court of appeals took a different approach, reasoning that the rule applied because petitioner's marketing brochures included the MAO feature (Pet. App. 15a-16a), an approach that echoes Judge Newman's "foreseeability" requirement. The panel also mentioned the notion that the patented feature must be the basis for consumer demand (Pet. App. 15a), as Judge Nies' rule would require, but its conclusion that the marketing brochures were sufficient evidence of that demand is inconsistent with Federal Circuit precedent. *See Slimfold Mfg. Co. v. Kinkead Indus., Inc.*, 932 F.2d 1453, 1458 (Fed. Cir. 1991) (refusing to apply the entire market value rule where the patentee "failed to show that *buyers* of bi-fold metal doors specifically want a

door having the advantages of the [infringed] patent") (emphasis in original).

The foregoing discussion demonstrates that courts attempting to apply the entire market value rule have been left without clear guidance as to the proper circumstances for application of the rule. The result, not surprisingly, has been that the courts apply the entire market value rule on an essentially *ad hoc* basis, drawing on snippets of reasoning from prior cases in support of the conclusion that the rule does (or does not) apply but offering no consistent rationale or principle to guide future conduct. This unpredictable approach to judicial decisionmaking is inconsistent with the rule of law and deprives patentees and alleged infringers of the ability to make rational judgments about the value of intellectual property rights.

II. Review By This Court Is Warranted To Clarify The Scope Of The Entire Market Value Rule

The Federal Circuit has exclusive jurisdiction over appeals in several substantive areas of the law, including most patent cases. *See* 28 U.S.C. § 1295. As a result, its decisions will rarely, if ever, conflict with those of another court of appeals or a state court of last resort. *Cf.* Sup. Ct. Rule 10(a). Nevertheless, this Court has not hesitated to review decisions of the Federal Circuit that involve questions of national importance. *See, e.g., United States v. Goodyear Tire & Rubber Co.*, 493 U.S. 132, 138 (1989); *Department of the Navy v. Egan*, 484 U.S. 518, 520 (1988). Indeed, this Court has granted review of Federal Circuit decisions in each of the last two Terms to decide important questions of patent law. *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 117 S. Ct. 1040 (1997); *Markman v. Westview Investments, Inc.*, 116 S. Ct. 1384 (1996).

The Federal Circuit was created, in large part, to reduce inconsistency in the area of patent law. As this Court has explained, "[o]ne of Congress' objectives in creating a Federal Circuit with exclusive jurisdiction over certain patent cases was 'to reduce the widespread lack of uniformity and uncertainty of legal doctrine that exist[ed] in the administration of patent law.'" *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 813 (1988) (quoting H.R. Rep. No. 97-312 at 23 (1981)); *see also Markman*, 116 S. Ct. at 1396 ("It was . . . for the sake of . . . desirable uniformity that Congress created the Court of Appeals for the Federal Circuit").

Inconsistent decisions in patent cases create uncertainty among inventors, investors, manufacturers, competitors, and other participants in the market for patented products and devices. Such uncertainty can deter innovation, frustrating the Framers' directive that Congress "promote the Progress of Science and useful Arts." U.S. Const., Art. I, § 8, cl. 8; *cf. Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994) ("Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible").

Uniform, understandable rules of patent law, by contrast, promote innovation by giving patent holders and others clear notice of the legal rights appurtenant to patents and the consequences of infringing them. This Court has recognized that "increased uniformity would 'strengthen the United States patent system in such a way as to foster technological growth and industrial innovation." *Markman*, 116 S. Ct. at 1396 (quoting H.R. Rep. No. 97-312, p.20 (1981)); *see also* S. Rep. No. 97-275, at 6 (1981) ("uniformity in the law will be a sig-

nificant improvement from the standpoint of the businesses that rely on the patent system. Business planning will become easier as more stable and predictable law is introduced. This can have important ramifications on our economy as a whole.").

It is particularly important that patent damages be predictable, because business decisions regularly are made in light of the possible liability that may ensue. The consequences of infringing a patent, even if the infringement is entirely innocent or unintentional, can be immense. The entire market value rule can magnify those already considerable consequences by including in the measure of damages not only the patented feature but the value of the entire device in which it is incorporated.

Owners and users of intellectual property rights need to know with reasonable certainty whether the entire market value rule is likely to be applied to a particular machine or apparatus, but the Federal Circuit's law on this issue offers nothing but confusion, inconsistent standards, and unpredictability. Of course, "[i]t is primarily the task of a Court of Appeals to reconcile its internal difficulties." *Wisniewski v. United States*, 353 U.S. 901, 902 (1957). But as *Rite-Hite* and other decisions demonstrate, the Federal Circuit has found itself unable to articulate a coherent principle for the application of the entire market value rule, and there is no reason to believe that this troubling and unsatisfactory situation will be remedied absent this Court's involvement. In these circumstances, review by this Court is warranted. *See Warner-Jenkinson*, 117 S. Ct. at 1045 ("The significant disagreement within the Court of Appeals for the Federal Circuit concerning the application of *Graver Tank* [*& Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605 (1950),] suggests . . . that the doctrine [of

equivalents] is not free from confusion. We therefore will endeavor to clarify the proper scope of the doctrine.").

The question presented in this case is plainly one of substantial national importance. An overly broad interpretation of the entire market value rule would discourage technological progress by creating a disincentive to engage in efforts aimed at developing new lines of technology in areas potentially subject to existing patents. By contrast, an unduly narrow construction of the entire market value rule would undermine the societal interest embodied in the patent laws, which are intended to stimulate innovation by protecting the rights of inventors to exploit new inventions.

Given the Federal Circuit's failure to bring a reasonable degree of clarity to this area, only this Court can establish meaningful guidelines for the application of the entire market value rule. As the late Judge Nies recognized, "[c]larification from higher authority is needed on the scope of protection afforded by a patent and the meaning of patent infringement 'damages.'" *King Instruments Corp. v. Perego*, 65 F.3d 941, 961 (Fed. Cir. 1995) (dissenting opinion). The Court should, accordingly, grant the petition for a writ of certiorari to resolve this important question of patent damages.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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Appendix

APPENDIX

MEMBERS OF BOARD OF DIRECTORS OF INTELLECTUAL PROPERTY OWNERS*

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Westinghouse Electric Corp.

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E.I. DuPont de Nemours & Co.

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Hoechst Celanese Corp.

James W. Gillman
Motorola, Inc.

Michael W. Glynn
Novartis Corporation

Stephen S. Grace
Dow Chemical Company

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Lucent Technologies, Inc.

Gary L. Griswold
3M

J. Jeffrey Hawley
Eastman Kodak Company

Robert P. Hayter
Otis Elevator Company

Edward P. Heller, III
Seagate Technology, Inc.

William Heming
Caterpillar Inc.

Wayne C. Jaeschke
Henkel Corporation

Herbert H. Jervis
Pioneer Hi-Bred Int'l, Inc.

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* IPO procedures require approval of positions in briefs by a three-fourths majority of directors present and voting.

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SmithKline Beecham Corp.

Richard C. Levy
Richard Levy & Associates

William F. Marsh
Air Products & Chems., Inc.

Roger L. May
Ford Motor Company

Michael A. Nametz
Exxon Chemical Co.

Wallace L. Oliver
Amoco Corporation

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Rockwell International Corp.

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Mars Incorporated

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Whitaker Corp.

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